Heriot-Watt University October 2014

The Actuarial "Watt"?

EDITOR'S NOTE

Welcome to this year's first edition of The Actuarial "Watt", the newsletter designed to keep students informed of some of the latest topics affecting the world of actuaries. We are now onto our 4th year of publishing and I hope the high standard of articles from the past continue into the future. It is my intention to publish two newsletters per semester both on our website and via e-mail in order to reach as many of our SAS members as possible. All previous versions of the newsletter can also be accessed on our website at www.hwsas.com.

In this month's edition we have a range of topics such as the recent problems of Tesco and big companies in general, the new UK pension reforms and career prospects as an actuary in emerging Asian markets. There is also an article written by a former student at Heriot-Watt about a day in the life of an actuary.

In addition, the newsletter will contain information about upcoming events, organised by either SAS or the university. These events are a great way for SAS members to get a better understanding of the actuarial world and talk to those who are in the profession.

You can always sign up to SAS at any time by getting in touch with Gráinne, our Secretary, to receive information about events and to get involved.

As always, we would love to hear any feedback you may have on the newsletter or the society in general. Just send me an e-mail on jw235@hw.ac.uk and I'll respond as soon as I can.

Better yet, you could also get involved in the current affairs committee and contribute to our newsletter at any time by once again dropping me an email. Any relevant contributions will be welcomed and would be a great addition to your CV.

I would lastly like to thank everyone who got involved in the newsletter, to all of those who either wrote an article or provided the wealth of information for the readers to enjoy.

-John Watret

SAS COMMITTEE MEMBERS

Here is a quick overview of this year's current SAS committee. Feel free to contact us if you have any questions or feedback on any aspect of the society. There is more information about each member and what we do on the website.

Name	E-mail	Name	E-mail
Ben Bailey-Conlon – President	beb5@hw.ac.uk	**Rebecca Campbell –** Vice President	rmc7@hw.ac.uk
Jason Eber – Treasurer	je54@hw.ac.uk	**Gráinne McQuaid –** Secretary	gm232@hw.ac.uk
Leo Blair – FASS representative	lbb2@hw.ac.uk	**Kevin Pak –** IT director	ysp2@hw.ac.uk
Justine Lowe – Social Director	jk131@hw.ac.uk	**Gareth Gilfillan –** Social Director	gjg30@hw.ac.uk
Jack Paton - Education Director	jap12@hw.ac.uk	**Stephen Jasinski –** Education Director	sj156@hw.ac.uk
John Watret – Current Affairs Director	jw235@hw.ac.uk	**Ley Kuan Law –** Conference Director	lkl1@hw.ac.uk
David Rose – Marketing Director	dnr1@hw.ac.uk	**Melissa Koay –** Seminars Director	msk31@hw.ac.uk
Yuki Sun – Careers Director	xs58@hw.ac.uk		

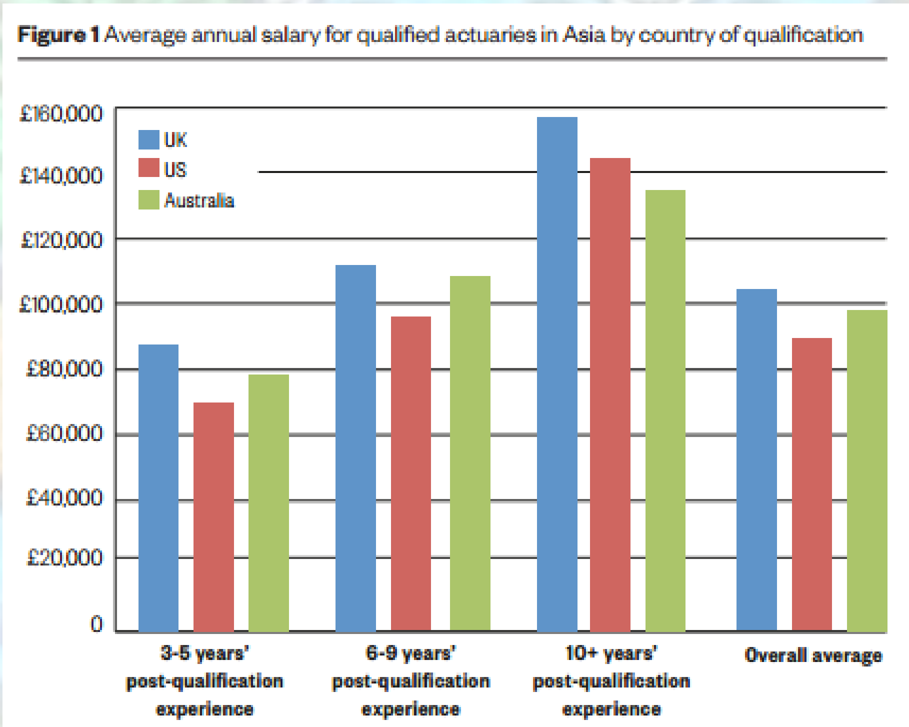
ASIA WELCOMES UK ACTUARIES

BY RICHARD WIJENDRA

The Institute and Faculty of Actuaries (IFoA) carried out a salary survey of actuaries in Asia to compare how IFoA fellows benefit working in Asia compared to other professional bodies. It confirmed the UK profession's insurers and actuaries are in high demand. The market rate does not have a strong correlation with experience but if one is to factor in significant variables, such as quality of life, the conclusion might contradict, at least in the near future.

Accompanied by growing globalisation, ever more complex multinational firms and companies booming daily, prospective actuaries should hone their interpersonal skills to communicate technical concepts in everyday language, in order to succeed as an integral part of company's general strategy. As such, an actuary's job market can span from finance, risk, marketing, strategy to research, etc. Native actuaries' work experience in Asia tends to be mainly statutory-focused, and they are allegedly disadvantaged by lower English proficiency. Consequently, employers are more likely to employ other actuaries worldwide. In the UK, the skill of harmonising exams and real life application is taken for granted. As a result, the UK's level of training provided is reflected in survey results.

The average British actuary residing in Asia earns £13,000 higher per year than the American equivalent and £6,500 higher than the Australian. In addition, they were the highest paid group in each post-qualification experience bracket, relative to others, as shown in Fig1.



A few months back, the CEO who administered the survey, Derek Cribb, visited Hong Kong to sign an exemption agreement for the fifth university in South East Asia: University of International Business and Economics (UIBE). Also, the IFoA are holding events in Hong Kong and Singapore on an ever more frequent basis. It will not be long before the gap in the Asian job market is occupied.

Asia is now a multi-disciplinary business leader, creating innovative solutions (e.g. insurance products) with a demand for qualified actuaries. Salaries are high, alongside bonuses, not to mention the cost of living and tax rates are relatively low. Any actuary with the right skill, attitude and ambition may be promoted to a higher level of responsibility earlier than would be the case in UK.

So, any UK actuarial graduate who wants to travel and explore a different perspective of life is invited. It is advisable however to learn their tongue- to give local restaurant's waiter your order.

TESCO – TOO BIG TO GO BUST?

BY HOLLY BURNS

Last month, Tesco issued its third profit warning in three months. Its share price plummeted 12pc shortly after markets opened as a result of the company announcing their half-year profits had been overstated by £250m. The alarm had been raised by a whistle-blower who informed the supermarket's General Council of the "serious accounting errors" which arose due to "misreported income received from suppliers". Tesco had been taking payments from suppliers early, and delaying payments to them, causing a discrepancy in the accounts. This is common practice, termed 'hard-balling', but in this case used to the extreme. The accountancy firm Deloitte have been called in and now 5 senior executives have been suspended pending investigation.

The writing had been on the wall for Tesco. The retailer's share price has been falling since the end of 2013 when profits dropped for the first time in 20 years. Standard & Poor's credit rating for Tesco went down in August 2014 and they have announced it is again under review after the latest profits warning. The second biggest shareholder, BlackRock, also recently sold part of its stake. Tesco's market share, although still a majority, has decreased to 28.7pc. This is the lowest in a decade after losing out to discount supermarket chains like Aldi and Lidl. It seems the size of Tesco's share of the market has played a part in its downfall. Francis Brook, of Troy Trojan Income fund, recently told of how they'd sold their shares back in 2011 and have no intention of buying them back, stating that, at the time, the UK profitability was too high and therefore vulnerable in such a volatile market. This was a claim which appears justified now. This opinion is shared by retail expert Bill Grimsey who thinks the brand was wrongly allowed by the Competition Commission to monopolise the market.

Tesco's situation echoes that of the Royal Bank of Scotland's troubles back at the height of the financial crisis. After buying out as many banks as they could get their hands on, and with a CEO guilty of hubris, RBS were overstretched and out of their depth. They were deemed "too big to fail", meaning that the government had to bail them out, along with Lloyds and HBOS, in order to avert the complete collapse of the financial sector. In recent years, Tesco has focused on the American market, but its efforts have been fruitless and they've now been left with the realisation of domestic troubles too. With over 500,000 employees, Tesco simply can't be left to collapse.

Job Curtis of City of London Investment trust - yet another investor who has been selling shares in light of the profit shortcomings - expressed his concern over the company's £6bn net debt and £3bn pension deficit saying he "did not realise how bad the situation was". Tesco's pension scheme may be in further danger as they had committed approximately £579m to their defined benefit scheme for this year according to their group financial statement. But with £250m profit "missing", this estimate is bound to decrease. And it's not just Tesco's pensions that are under threat. Vast amounts of pension funds are invested in the supermarket, so, with share prices dipping 40pc from the turn of the year, the yields of all these pensions funds are at risk.

With Deloitte's investigation under way and the City regulator, the Financial Conduct Authority, the Serious Fraud Office and the Financial Reporting Council all keeping a close eye on the situation at Tesco, there should soon be some answers as to how this overstatement of profits was allowed to occur. It's fair to say that a lot of jobs on the board are on the line, but Grimsey believes the changes shouldn't stop there - Tesco has become "too big" and the government should lead an initiative to break up the group and take the market share below 25pc to ensure fairer trading. Only time will tell what change will occur but it's a certainty that something must.

SCOTTISH INDEPENDENCE – THE EFFECTS ON PENSIONS

BY BEN BAILEY-CONLON

Most, if not all, will have heard the result of the recent Scottish referendum where the question asked was: 'Should Scotland be an independent nation?' The result was close but decisive – 55pc of the vote was in favour of remaining part of the UK, 45pc in favour of independence. As part of the debate many important questions were asked about welfare, pensions and financial security; whether Scotland could afford to go it alone or would it be stronger as part of the UK. Much was talked about as to what would have happened to the Scottish state pension if Scotland became independent and whether it would have been a positive or negative adjustment to people collecting private pots in Scotland.

For private pensions, new regulators would have had to have been set up, increasing administration costs due to companies paying twice if they had employees in both the rest of the UK and Scotland. This, in turn, would have meant a lower return for the employee. Cross-border schemes would have also had to have been fully funded at all times according to current regulators in the UK. This would have incurred a large cost immediately and could have even closed defined benefit schemes. However, finance secretary, John Swinney, had stated that Scottish people's pensions would not have been affected by a transition to independence.

In terms of state pensions, the White Paper had pledged that, within the first year of independence, the single-tier pension would have been set at a level of £1.20 per week *higher* than the levels anticipated in the rest of the UK. On top of that a 'triple-lock' on pensions would have ensured they would have increased by either inflation, earnings or 2.5pc, whichever was the highest at the time. Although there were no costings in the report it stated that this would have been achieved due to the fact that Scotland has a lower life expectancy. In the same vein, they would have set up a commission to investigate if increasing the pension age to 67 in Scotland were the right action to take or if it should have been increased to just 66.

From all the research I have done on this aspect, and purely from a pension's point of view, I believe that people in Scotland with private pensions would have been worse off under independence. On the other hand, if the Scottish government could have achieved the figures reported in their White Paper, then those receiving a state pension would have been better off under independence. I am not convinced, however, that the figures would have been achievable due to a slight difference in life expectancy.

The result of the referendum has put a halt to the Scottish government's plans to investigate pension age in Scotland and as a result will rise in line with the rest of the UK. The end effect is that the pension age will rise to 66 for both men and women in 2018 and continue to 67 in 2026.

A DAY IN THE LIFE AT HYMANS

BY CRAIG RITCHIE (HERIOT-WATT GRADUATE)

To set the scene, I am one of the 2014 graduate intake working within the Edinburgh Actuarial and Benefits Practice at Hymans Robertson. I started almost one month ago and a year ago I was starting my final year at Heriot Watt, hoping for a job as a Pensions Consultant. I don't think I could have ended up in a better company!

The first month started with an induction process which allowed me to build relationships with all the other graduates across the UK (there were 26 of us this year!) as well as a series of introductions to the business. It was really useful on a number of levels – both socially and in helping to ensure everyone had a good grounding. I covered the basic calculations and much more before being thrust into the office environment. It was also great to see the other offices across the UK. Within a week I had visited the Glasgow, London and Edinburgh offices where everyone was very welcoming. (I am hoping for a trip to the Birmingham office sometime soon).

The Edinburgh office has around 80 employees so it was possible to go round and meet (almost) everyone on my first day which was great as you immediately feel like you are getting to know people and starting to settle in. This hasn't changed since the office is always buzzing with activity and my lunchtimes are mainly spent in the kitchen speaking to many of the other actuarial students.

In terms of work, I have been encouraged to help out with a variety of tasks during my first month, and this is set to continue before I am assigned to specific clients. This has given me a good introduction to everything that the team does and also gives me the opportunity to work with people from every client team – a good chance to meet everyone very early and get that awkward first conversation out of the way.

A fair amount of the work I have done so far has been based around doing transfer values for different private sector pension schemes. These transfer values are basically just placing a value on the benefits payable to a scheme member under scheme rules. These calculations tend to involve applying lots of the skills you will learn during the Actuarial Science course at Heriot Watt (the lecturers aren't lying when they tell you that). If you think this sounds boring then don't worry, there are plenty of opportunities to find the type of work that interests you. A few of the graduates in another team look set to be heading to Manchester to work with a client.

Hopefully that gives you a quick idea of what life is like working at Hymans Robertson as a new graduate. I hope you are all busy applying for jobs or internships here next year!

HYMANS ROBERTSON

'MONEY CHALLENGE' AS MORE HIT 100

BY LEY KUAN LAW

I think we can all agree that people are living longer nowadays compared to 10 or 20 years ago. The facts and figures by the Office for National Statistics do support this fact. In 2012, the period life expectancy at birth in the UK was 79.0 for males and 82.7 for females. Compare it to the years 2002-2004 where it was 77.0 for males and 81.3 for females. Life expectancy in the UK has an overall upward trend since 1980 (Fig. 1), and this trend is expected to continue. By 2037 period life expectancy at birth is projected to reach 84.1 years for males and 87.3 years for females. The increasing life expectancy means that the population demographic is shifting towards older ages. In fact, there were an estimated 13,780 people aged 100 and over in the UK in 2013, which is up from 3,040 in 1983 (more than a 350% increase).

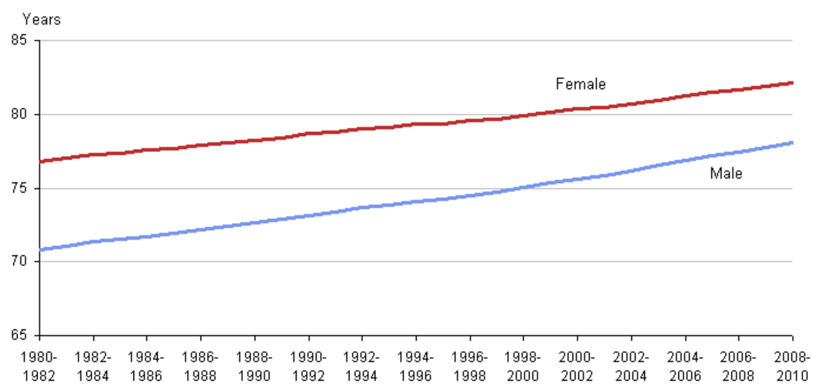
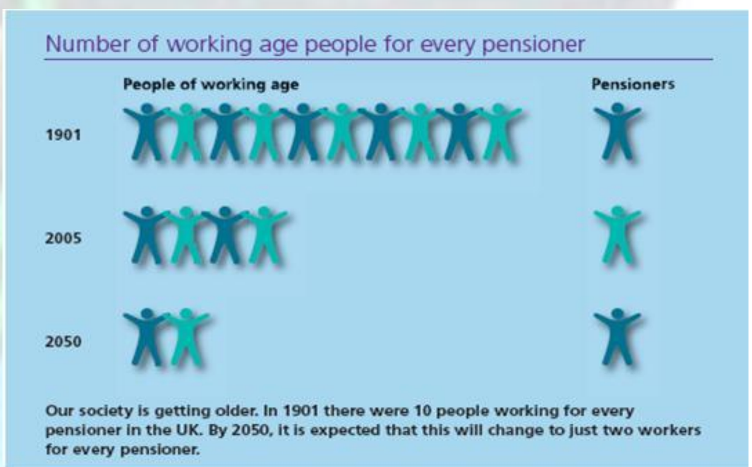


Figure 1: life expectancy in the UK

Why is this happening? The most obvious reason would be that people now have access to better healthcare systems, and advances in medical technology means that people would be able to live healthier for longer.

Longer lifespans would pose a huge challenge to the state, however, when it comes to funding state pensions. The current basic State pension pays out £113.10 per week to all pensioners and, from 2016, there will be a full pension of about £148 (in 2014/2015 terms) per week paid to anyone who has at least 35 years of National Insurance contributions. An important fact about the state pension is that it is unfunded which means that workers today are paying for the benefits of the pensioners. The aging population means that the burden for today's workers is increasing. If the state were to take care of all its pensioners, it would need even more income to support the system.



There is no easy solution to this problem: reducing benefits or asking current workers to pay more would be met with fierce opposition from pensioners and the workforce respectively. The only acceptable solution that the state has is to increase the state pension age (SPA). The SPA is currently 65 for men, and it is in the process of being raised to that age for women as well. Once that equalisation process finishes in 2018, it will then be raised by another year, to 66, between 2018 and 2020, before rising again to 67, between 2026 and 2028.

With increasing costs for healthcare and the desire for a better lifestyle, the amount of pension promised by the state is not going to be enough. The auto-enrolment legislation will hopefully address this issue by encouraging people to start saving early, and hopefully build up a significant pension by the time they retire. By then, if most people are able to live well on their workplace pensions, the government may be able to change the state pension system to hopefully reduce the burden on the workforce at that time.

UPCOMING EVENTS

SAS are organising events throughout the year to help students keep informed of recent actuarial topics and to get an insight into the daily life as an actuary - including talks from interns and recent graduates. Below is a list of some events you may find particularly interesting and beneficial to attend.

SAS Internship Experience Talk

- Date: 23rd October 2014
- Time: 12:30 – 13:45
- Venue: SR 2.14
- Arranged by: Yuki Sun (xs58@hw.ac.uk), SAS Careers Director

Applying for internships soon? Wanting to know what to expect from interviews and work? This is a great opportunity to find out answers to these questions and more! Andi Cai, Lauren Blair and Yuki Sun will be sharing their experiences from their roles in Lloyds Banking Group, Hymans Robertson and Validus Reinsurance respectively.

Networking Workshop

- Date: Friday 31st October 2014
- Time: 13:15 – 14:15
- Venue: MB G.14
- Arranged by: Melissa Koay (msk31@hw.ac.uk), SAS Seminars Director

From a limp handshake to an elevator pitch gone wrong, networking has its set of challenges. With many company insight events coming up, alongside the annual FASS dinner, SAS would like to help you step up your game in making a lasting impression. We'll be holding a sign-up for this event, so stay tuned for an e-mail from us in the next week. The workshop will involve a presentation by Lucy Everett from ScotGrad followed by an interactive session.

Mock Assessment Centre

- Date: Tuesday 11th November 2014
- Time: 15:15 – 17:15
- Venue: WP 1.10
- Arranged by: Melissa Koay (msk31@hw.ac.uk), SAS Seminars Director

You've gotten your applications done, aced all your aptitude tests and passed your prerequisite interviews. The only thing standing in the way between you and the role you've applied for is the assessment centre. Applying for internships and graduate roles is never easy but, as members of SAS, you always have our support. This mock assessment centre will give you a real feel of what it's like to be there, and maybe you'll find it's not as gruesome as you think!

SAS Peer Mentoring

If you fancy getting involved in SAS, why not be a peer mentor where you can help younger students with their course work and get help and advice from older students on your coursework? Just send an e-mail to either Jack (jap12@hw.ac.uk) or Stephen (sj156@hw.ac.uk) for details.

FASS representative is Leo Blair (lbb2@hw.ac.uk)

Please feel free to ask any information about the FASS Ball before tickets go on sale in week 7.

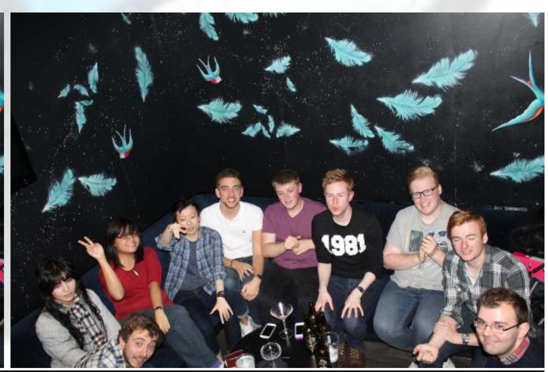
ENTERTAINMENT SECTION

There has been a record number of students signing up for the student actuarial society this year (over 300) and we hope you have enjoyed some of the social events that have already been organised by Gareth and Justine. Their hard work ensured that over 50 students were able to take part in the successful bowling and geek pub out events. Below are just a few snaps of the events so far.

BOWLING

GEEK PUB OUTING


KARAOKE



SUDOKU OF THE MONTH

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	7	2		8		4		

Complete the puzzle above and stand a chance to win a £20 Amazon voucher! Just scan or take a picture of the completed puzzle (make sure it is readable) and send it to jw235@hw.ac.uk. We'll select one lucky winner from all the correct submissions and will inform you via email if you have won the £20 Amazon voucher. **Contest ends 31st October 2013.**